

Q1 FY2023 Earnings ended June 30, 2023

Results Briefing

July 27, 2023

OMRON Corporation

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Good afternoon, everyone!

I am Takeda. I became CFO and Senior General Manager of Global Strategy HQ this April. Thank you for finding the time to take part in OMRON's Q1 FY2023 Results Briefing today.

As always, we will start with the presentation of the results, to be followed by a Q&A session. We aim to entertain as many questions as possible during the allotted time.

Before starting the presentation, I would like to briefly introduce myself.

Greetings from Seiji Takeda

Managing Executive Officer
CFO and Senior General Manager, Global Strategy HQ

Seiji Takeda

1990 Joined OMRON Corporation
2006 Vice President, OMRON Healthcare
(China) Co., Ltd.
2012 CEO, OMRON Healthcare (America) Inc.
2017 General Manager, Global Strategy HQ,
OMRON Corporation
2018 Executive Officer
2023 Managing Executive Officer, CFO



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After joining OMRON in 1990, I have primarily worked in the Healthcare business, with management roles in Japan, China and the Americas.

I then became the General Manager of the Global Strategy HQ in 2017. In this role, I led the project of formulating the long-term vision SF2030 which we announced last year.

From April of this year, I was appointed CFO and Senior General Manager of the Global Strategy HQ.

My aim is to achieve sustainable growth and enhance corporate value by promoting OMRON's growth strategy and strengthening our financial base.

Let's move on to the results presentation.

Summary

■ Q1 FY2023 results

- Q1 results: Sales and profits up Y/Y on strong progress at IAB, HCB, SSB.
In particular, SSB posted substantial sales growth Y/Y on rapidly expanding demand related to renewable energy
- Sales in line with plan. GP margin, indicator of profit-generating ability, improved on selling price initiatives

■ Outlook for operating environment, management policy for 2Q and beyond

- Operating environment: Areas of strength and weakness in each business segment.
Relative to initial assumptions, demand recovery in IAB/DMB expected to be delayed.
However, demand for HCB and SSB continue to grow.
In particular, favorable environment for SSB to continue, on strong demand related to renewable energy
- Focusing on emerging opportunities: Aim to grow sales by demonstrating self-sustaining growth capability.
Simultaneously, being rigorously selective in executing growth investments

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There are 2 key takeaways from today's presentation.

The first is the Q1 FY2023 results.

In Q1, IAB, HCB and SSB performed well, reporting Y/Y sales and profit increases.

In particular, on the back of the rising penetration of renewable energy, SSB has been able to solidly capture rapidly emerging business opportunities, achieving very strong Y/Y sales growth.

Despite an uncertain operating environment, OMRON was able to capture growth opportunities: Q1 sales were in line with the initial plan and we were also able to raise our GP margin, a metric which reflects our ability to generate profits on a Y/Y basis.

The second takeaway is the outlook and OMRON's operational policy for Q2 and beyond.

In terms of the operating environment for Q2 and beyond, OMRON expects there will be areas of strength and weakness in each of the segments. We expect the timing of the demand recovery in the IAB and DMB markets is likely to be later than initially expected. However, we expect demand growth in HCB and SSB will continue. In particular, for SSB, we expect the active operating environment around renewable energy to persist.

In Q2 and beyond, OMRON will focus on emerging business opportunities, leveraging its self-sustaining growth capability to expand sales.

In addition, in order to ensure FY2023 profit growth, OMRON will be rigorously selective in executing on growth investments.

Let's get started with the presentation.

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1. Q1 FY2023 Results

Q1 Consolidated Results

Achieved increased revenues and profits on capturing growth opportunities across the company

(¥bn)

	FY2022 Q1 Actual	FY2023 Q1 Actual	Y/Y
Net Sales	184.4	203.4	+10.3%
Gross Profit (%)	80.4 (43.6%)	90.5 (44.5%)	+12.6% (+0.9%pt)
Operating Income (%)	11.9 (6.5%)	14.3 (7.0%)	+19.9% (+0.6%pt)
Net Income	8.0	13.4	+68.0%
1USD (JPY)	126.5	135.8	+9.3
1EUR (JPY)	136.8	147.9	+11.2
1CNY (JPY)	19.3	19.5	+0.2

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First are the Q1 FY2023 results.

Please look at the shaded portion in the center of the table.

Q1 sales were 203.4 billion yen, gross profit was 90.5 billion yen for a GP margin of 44.5%, operating income was 14.3 billion yen and net profit was 13.4 billion yen.

At 203.4 billion yen, sales grew 10.3% Y/Y. While we have not disclosed our internal plan, we were able to make steady progress toward achieving it.

The GP margin improved 0.9%-points to 44.5%. OMRON has made solid progress in strengthening its profit structure, on the back of the impact of measures such as selling price initiatives implemented last year.

Operating income rose to 14.3 billion yen, up 19.9% Y/Y on higher sales and an improved GP margin.

Next are the segment results.

Q1 Results by Segment

Sales and profits up Y/Y at IAB, HCB and SSB.
DMB sales and profits fall on impact of sluggish demand

(¥bn)

	Sales			OP		
	FY2022 Q1 Actual	FY2023 Q1 Actual	Y/Y	FY2022 Q1 Actual	FY2023 Q1 Actual	Y/Y
IAB Industrial Automation	101.0	110.6	+9.5%	11.8 (11.6%)	12.2 (11.1%)	+4.2% (-0.6%pt)
HCB Healthcare	34.1	37.7	+10.5%	4.1 (12.1%)	4.8 (12.8%)	+16.9% (+0.7%pt)
SSB Social Systems, Solutions & Service	15.7	23.5	+49.6%	-1.2 -	-0.0 -	- -
DMB Device & Module Solutions	33.2	31.2	-5.8%	3.8 (11.5%)	2.5 (8.2%)	-33.5% (-3.4%pt)
Eliminations & Corporate	0.5	0.4	-11.6%	-6.6	-5.3	-
Total	184.4	203.4	+10.3%	11.9 (6.5%)	14.3 (7.0%)	+19.8% (+0.6%pt)

*Figures shown in brackets under OP are segment OPMs

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This shows the sales and operating income for each segment.

IAB made progress on supplying product, mainly to Japan and Europe, from its order backlog. This drove a 9.5% Y/Y increase in sales to 110.6 billion yen. However, OP grew 4.2% to 12.2 billion yen as a result of proactive advance investments, such as for the development of innovative applications.

HCB sales grew 10.5% Y/Y to 37.7 billion yen, on a recovery in BPMs in Europe and strong demand for nebulizers in China. OP rose a substantial 16.9% Y/Y to 4.8 billion yen on progress on initiatives related to selling prices and cost reductions on components, materials and logistics expenses.

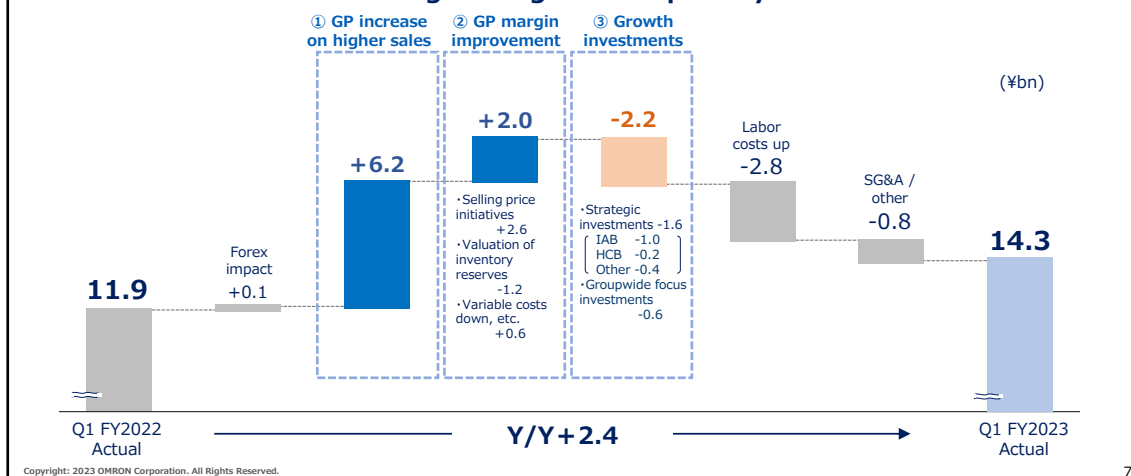
On the back of strong performances from the Energy Solutions and railway businesses, SSB reported a significant increase in sales of 49.6% Y/Y to 23.5 billion yen and OP growth of 1.2 billion yen.

Finally, DMB reported declines in sales and profits on lackluster trends in demand, mainly in the consumer electronics industry.

Next, I will explain changes in key components of operating profit.

Q1 Results: Analysis of Change in Operating Income (Y/Y)

Despite uncertain environment, OMRON grew sales and strengthened ability to generate profits. Executed on growth investments to enhance medium- to long-term growth capability



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This is the waterfall chart comparing key elements of operating income on a Y/Y basis.

On the far left, we show the actual OP for Q1 FY2022. On the far right is the result for Q1 FY2023. We show the Y/Y components of change in between.

I will start on the left.

First, look at box 1 outlined in blue, which is the increase in gross profit on the back of higher sales. Primarily as a result of higher sales at IAB and SSB, profits increased 6.2 billion yen.

Next is box 2, which shows the impact of an improved GP margin. OMRON made solid progress in realizing the effects of selling price initiatives and cost reductions, for a positive 2 billion yen impact. OMRON continues to make solid progress in improving its ability to generate profits.

Finally, box 3 and growth investments. In Q1, OMRON executed on advance growth investments such as developing innovative applications in IAB and strengthening marketing for HCB.

As a result of all of the above, Q1 operating income grew 2.4 billion yen Y/Y to 14.3 billion yen with OMRON achieving profit growth through its self-sustaining growth capability and enhanced profit-generating capability, while executing on advance growth investments.

This covers the Q1 results.

Next, I will talk about the outlook for the operating environment and our operating policy for Q2 and beyond.

2. Outlook & Policy: 2Q and Beyond

Operating Environment by Segment

Relative to initial assumptions, demand recovery in IAB, DMB expected to be delayed but strong demand for HCB continues in line with plan. SSB demand growth stronger than expected

IAB Industrial Automation	<p>Timing of demand recovery from Q2 onward likely to be later than initially expected but emergence of areas where demand is continuing to exceed assumptions, such as photovoltaic systems (PV)</p> <p>Digital: Timing of semiconductor recovery delayed; now expected in 2H. Photovoltaic systems (PV) investments stay strong, better than expected</p> <p>NEV: While 1H demand was lower than expected owing to delays in rechargeable battery investments, expect gradual recovery from 2H</p> <p>Food/household goods: Recovery likely to be weaker than expected on impact of continued inflation</p>
HCB Healthcare	<p>In line with plan; global demand recovery to continue in Q2 and beyond, chiefly in BPMs</p> <p>Cardiovascular: In line, demand recovery trend likely to continue globally, mainly in China, Europe and US markets</p> <p>Respiratory: Better-than-expected, firm nebulizer demand, primarily in China and India</p> <p>Remote medical service: In line with assumptions, markets continue to expand, mainly in US and Europe</p>
SSB Social Systems, Solutions & Service	<p>Demand to continue to exceed expectations from Q2 onward, especially the Energy Solution Business backed by market growth for residential storage systems</p> <p>Energy: Growth in renewable energy-related investments stronger than expected, owing to surging electricity costs and expanded subsidies for renewables</p> <p>Railway: Capex demand by railway operators expected to exceed initial assumptions on rebound in passenger numbers</p>
DMB Device & Module Solutions	<p>Timing of recovery in demand in Q2 and beyond likely to be later than initially expected. Gradual recovery in 2H on the back of increased demand for components for the semiconductor and energy markets</p> <p>DC (Direct Current) equipment/Microwave devices: Overall demand from 2Q onward likely to fall short of plan. Demand firm for energy market in China</p> <p>Commodity equipment: Overall market demand weak on global economic slowdown. Macroeconomic recovery likely to be slower than expected</p>

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This slide shows our view of the operating environment for each of the segments from Q2 onward and how it has changed from our initial assumptions.

I will start with IAB. We had initially expected to see a gradual recovery in demand in the digital/semiconductor and NEV domains from Q2. However, we now believe the timing of the recovery in demand is likely to be later than we initially expected. I will cover this in more detail on the next page.

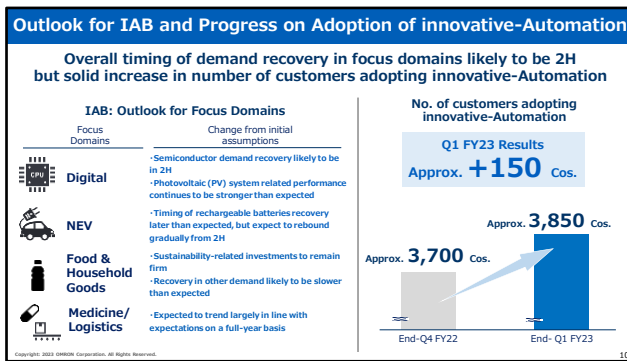
HCB is progressing in line with our initial assumptions, with the growth in global demand, mainly for BPMs, likely to continue in Q2 and beyond. OMRON will implement initiatives to grow market share, mainly in emerging markets like China, where the market is recovering, and India, where the market is very active.

From Q2 onward, we expect SSB to continue to enjoy stronger demand than initially projected on heightened demand trends related to rising penetration of renewable energy. In addition to this, capex demand from railway customers has been stronger than initially expected: we expect trends to remain firm. I will cover the Energy Solutions Business in more detail later.

Finally, DMB. Similar to IAB, the timing of a recovery in demand is likely to be later than we initially expected. Going forward, OMRON will promote an action plan which will lay the ground for a return to growth, concentrating on measures such as the creation of new products in the focus domains and expanding the customer base.

Next, I will discuss IAB and the Energy Solutions Business in more detail.

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I will begin with IAB.

Please look at the left side of the slide. This shows our view of the operating environment for the Focus Domains for Q2 onward.

The timing of a demand recovery in Digital has been slower than initially expected: we now expect a demand recovery in 2H, chiefly in semiconductors. However, investments related to photovoltaic systems are expected to continue to show stronger-than-expected trends.

Next is NEV. In China, OMRON is being impacted by delays to investments for rechargeable batteries. However, while the timing of a recovery is later than we had assumed, we expect to see a gradual recovery from 2H.

For the Food & Household Goods Domain, sustainability investments related to reducing the use of plastic should remain firm as expected. However, the timing of recovery in demand for other investments is likely to be delayed, relative to our initial assumptions.

We expect Medicine/Logistics to trend largely in line with our initial assumptions.

As I have explained, the timing of a demand recovery for the Focus Domains is generally likely to be slower than we had initially expected. However, we are making progress on negotiations with customers that anticipate a demand recovery, and are solidly advancing initiatives to enhance OMRON's self-sustaining growth capability which will enable us to successfully capture these opportunities.

Please look at the right side of the slide.

What we show here is the change in the number of customers adopting innovative-Automation, comparing the end of Q1 to the end of FY2022. The number of customers adopting innovative-Automation is a metric that reflects OMRON's self-sustaining growth capability.

As you can see, we were able to increase the number of customers by approximately 150 companies. This exceeds the pace assumed in our internal plans: we believe it demonstrates the solid improvement in our ability to capture demand.

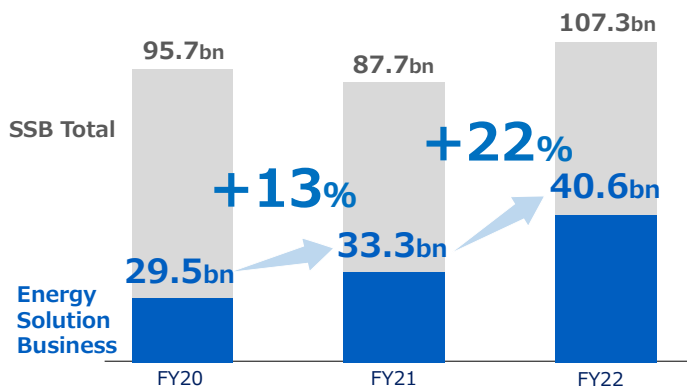
From Q2 onward, we aim to continue strengthening our capability for self-sustaining growth to achieve our full-year sales forecast.

From the next page, I will discuss SSB's Energy Solutions Business.

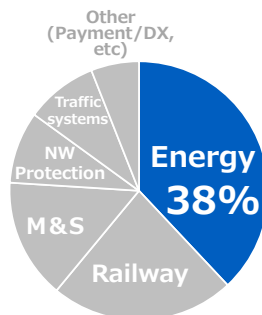
SSB (Energy Solution Business) Sales Growth

Energy solution business sales growing every year, driving growth for overall SSB

Energy Solution Business Sales Trend



Reference: SSB Sales Breakdown (FY22)



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This slide shows the sales trend for the last 3 years of the Energy Solutions Business and its proportion for SSB sales.

Please look at the left side of the slide.

The Energy Solutions Business was able to accelerate sales growth, growing 13% Y/Y in FY2021, and 22% Y/Y in FY2022. As touched upon in the discussion of Q1 results, the Energy Solutions Business is the driver of growth for the SSB business in this fiscal year as well.

Energy Business: Opportunities and Products/Services Proposition

Solidly capturing demand on the back of rising demand for renewable energy by providing a wide range of products/services in each market

Opportunities Targeted by Energy Business	OMRON's Products/Services Proposition
 Residential Rising demand for renewable energy on the back of surging electricity costs and subsidies for renewable energy use	 Residential-use PV inverters, storage systems
 Industry Increasing demand for renewable energy use in conjunction with corporate efforts to promote sustainability	 Energy management for industry
 V2X* Market expansion on the back of rising EV penetration	 Residential-use V2X systems

* V2X (Vehicle-to-Everything): Umbrella term for wireless communication technology between a vehicle and any related entity or infrastructure

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On this slide, we highlight the business opportunities targeted by the Energy Solutions Business and the products and services provided by OMRON.

Demand in the residential market is expanding significantly, on the back of surging electricity costs and expanded subsidies for renewable energy. OMRON has been able to proactively promote the adoption of storage systems to many customers by leveraging the strength of its installed base for PV inverters developed to date.

For the industrial market, demand for renewable energy has been growing on corporate initiatives to promote sustainability. In addition to providing industrial-use storage systems, OMRON is also supplying customers with packages that combine systems with the energy productivity solutions of IAB.

Finally, in the V2X market which is expected to grow on rising penetration of EVs, OMRON is promoting sales of storage systems which connect EVs and homes and related services from this fiscal year, aiming to win business opportunities.

Against a backdrop of an expanding market, the Energy Solutions Business has been able to win opportunities by taking solid actions for growth. This resulted in Q1 sales growth of a hefty 92% Y/Y.

OMRON will accelerate initiatives for sales growth going forward.

Next, I will explain our full-year forecasts.

FY2023 Full-year Consolidated Forecast

Full-year forecasts unchanged

	FY2022 Actual	FY2023 Forecast	Y/Y
			(¥bn)
Net Sales	876.1	890.0	+1.6%
Gross Profit (%)	393.9 (45.0%)	414.5 (46.6%)	+5.2% (+1.6%pt)
Operating Income (%)	100.7 (11.5%)	102.0 (11.5%)	+1.3% (+0.0%pt)
Net Income	73.9	74.5	+0.9%
EPS(JPY)	372	379	+6
ROIC	10.4%	Approx. 10%	-
ROE	10.6%	Approx. 10%	-
1USD (JPY)	135.2	130.0	-5.2
1EUR (JPY)	140.9	140.0	-0.9
1CNY (JPY)	19.7	19.0	-0.7

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OMRON's full-year forecasts are unchanged from the initial figures announced in April.

As discussed, the operating environment for OMRON is uncertain and there are areas of strength and weakness in each segment. Given the uncertain outlook for the macro backdrop, we have chosen to reiterate the full-year forecasts.

We will continue to focus on market conditions and will update our plan as necessary.

Demonstrate self-sustaining growth capability

Execute on rigorously selected growth investments

This is our operating policy for Q2 onward.

As noted earlier, the operating environment for Q2 and beyond includes areas of weakness and strength in each segment. As well, the timing of recovery in various businesses within each segment is a mix of areas where a recovery is now expected to be delayed and areas where trends are exceeding expectations.

Based on this understanding, OMRON will focus in particular on 2 key points in managing its businesses from Q2 onward.

The first is to demonstrate self-sustaining growth capability.

Even in an uncertain operating environment, there are many emerging areas of growth. With these opportunities, we will step up and accelerate our actions, particularly in sales and marketing, to lock in sales and profit growth this fiscal year.

The second is taking a rigorously selective approach to executing growth investments.

OMRON will focus on expense efficiency while also being flexible in shifting to execute investments in areas where growth is expected. In addition, OMRON will continue to selectively execute on investments in capacity necessary to ensure medium- to long-term growth.

This completes my presentation on the Q1 results and the outlook and operating policy for Q2 and beyond.



Finally, I would like to share my view as CFO of the Q1 results.

Today, as highlighted earlier, in some business areas within IAB and DMB, we expect the timing of a demand recovery to be later than our initial assumption. However, the push-outs at many of the delayed projects are the result of issues of timing of investments. I would like to be clear that this does not represent the drying-up of demand in any way.

OMRON has identified 3 social issues under SF2030. We are seeing growth in business opportunities related to the 3 themes of Achieving Carbon Neutrality, Realizing a Digital Society, and Extending Healthy Life Expectancy.

The initiatives for IAB and SSB which we showcased today target business opportunities related to these social issues. OMRON is also advancing similar initiatives in the other segments which are gaining traction.

I believe that our top priority is to continuously capture these opportunities and convert them to sales, as well as developing the capability to shape the medium- to long-term growth trend.

From Q2 onward, the operating environment is likely to remain uncertain but OMRON will focus on fully following through on growth actions that will increase sales to ensure that we can expand topline not just in the current fiscal year but also connect the growth to medium- to long-term growth in corporate value.

This completes my presentation. Thank you.

Reference

Consolidated Balance Sheet

	End-March 2023	End-June 2023	(¥bn) Chg, vs. End-FY2022
Current assets	486.9	488.6	+1.7
(Cash and cash equivalents)	(105.3)	(97.7)	(-7.6)
(Inventory)	(173.9)	(191.4)	(+17.5)
Property, plant and equipment	129.6	131.2	+1.6
Investments and other assets	381.7	392.0	+10.3
Total assets	998.2	1,011.8	+13.7
Current liabilities	210.0	184.7	-25.3
Long-term liabilities	56.9	56.7	-0.2
Total Liabilities	266.9	241.4	-25.5
Shareholders' equity	728.5	767.5	+39.1
Noncontrolling interests	2.8	2.9	+0.1
Total net assets	731.2	770.4	+39.2
Total Liabilities and net assets	998.2	1,011.8	+13.7
Equity ratio	73.0%	75.9%	+2.9%pt

Consolidated Cash Flow Statement

(¥bn)

	FY2022 Q1 Actual	FY2023 Q1 Actual	Y/Y
Operating cash flow	-1.4	7.9	+9.2
Investment cash flow	-6.5	-9.5	-2.9
Free cash flow (FCF)	-7.9	-1.6	+6.3
Financing cash flow	-28.9	-10.6	+18.3
Cash and cash equivalents as of end of period	128.4	97.7	-30.7
Capital expenditure	6.0	7.4	+1.4
Depreciation	6.2	6.9	+0.7

FY2023 Forex Sensitivities and Assumptions

Impact of 1 yen move (full year)
CNY impact of 0.1 yen move

	Sensitivities		Assumptions
	Sales	OP	FY2023 Assumptions
USD	¥1.7 bn	¥0.1 bn	¥130
EUR	¥1.0 bn	¥0.4 bn	¥140
CNY	¥0.9 bn	¥0.2 bn	¥19.0

* If emerging market currency trends diverge from trends in major currencies contrary to our expectations, it will impact sensitivities

ROIC Definition

<Consol. B/S>

LIABILITIES	
Current liabilities:	
Short-term debt	
Notes and accounts payable — trade	
Accrued expenses	
Income taxes payable	
Other current liabilities	
Deferred income taxes	
Termination and retirement benefits	
Other long-term liabilities	
Total liabilities	
NET ASSETS	
Shareholders' equity	
Common stock	
Capital surplus	
Legal reserve	
Retained earnings	
Accumulated other comprehensive income (loss)	
Foreign currency translation adjustments	
Minimum pension liability adjustments	
Net unrealized gains on available-for-sale securities	
Net losses on derivative instruments	
Treasury stock	
Noncontrolling interests	
Total net assets	
Total liabilities and net assets	

$$\text{ROIC} = \frac{\text{Net income attributable to OMRON shareholders}}{\text{Invested capital}}$$

Invested capital*

= Net assets + Interest-bearing debt

*The average of previous fiscal year-end result and quarterly results (or forecasts) of current fiscal year.

Capital cost forecast at 5.5% for FY2021 - 2024

*Assumptions at the time of formulating medium-term management plan

Notes

1. The consolidated statements of OMRON Corporation (the Company) are prepared in accordance with U.S. GAAP.
2. Projected results are based on information available to the Company at the time of writing, as well as certain assumptions judged by the Company to be reasonable. Various risks and uncertain factors could cause actual results to differ materially from these projections.

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